

FACT SHEET

SUBJECT: DLA Tiered Inventory Investment Policy

BACKGROUND: Traditional inventory optimization models favor fast-moving, low-cost items. These models achieve a target supply performance level at the minimum cost by investing heavily in items with the lowest risk and biggest payoff. Business realities require such efficiencies, but one result is that essential items may be poorly supported. DLA has transitioned to a tiered investment strategy that has a better readiness focus without losing sight of the business realities.

DISCUSSION: DLA-managed items are grouped into three tiers, based on weapon system essentiality coding. Supply performance goals are then set for each tier. At this point the business models take over, computing the optimal mix of requirements levels needed to achieve each of the tiered goals. Under this approach, the models are still allowed to trade off investment to gain efficiencies, but the essential items have more protection. The new strategy was implemented gradually to avoid the surge of investments that normally accompanies changes in requirements levels.

The tiers are defined according to two Service assigned codes, one reflecting the criticality or importance of the weapon system and the other indicating the essentiality of the part to the operation of the weapon system. The most essential items on the most critical systems are classified as Tier 1. Figure 1 illustrates the difference between the previous, business-oriented approach and the tiered strategy.

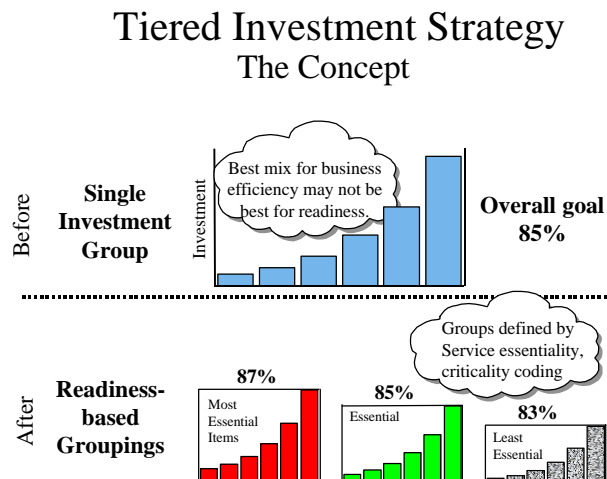


Figure 1

PREPARED BY: Michael Pouy, DLSC-LS / 767-1616 / June 6, 1999

FACT SHEET

Subject: Tiered Investment Strategy and Aviation Support

BACKGROUND: DLA began implementing the tiered investment strategy in October of 1997 (see DLSC-LS Fact Sheet, Subject DLA Tiered Inventory Investment Policy, dated June 6, 1999). Under that concept, items are grouped into readiness-based groups, or tiers, each with its own performance goal.

DISCUSSION: While this strategy ensures that the most essential group is managed to a higher supply performance goal, it's a group goal, and high cost items within the group may still be poorly supported. This is an acceptable result of we optimized one weapon at a time, or if high cost items were evenly distributed among all weapon systems. Unfortunately, certain critical categories of items, most notably aircraft parts, tend to concentrate in that low support area. While overall supply performance for essential items is good, aviation as a whole still suffers. See Figure1.

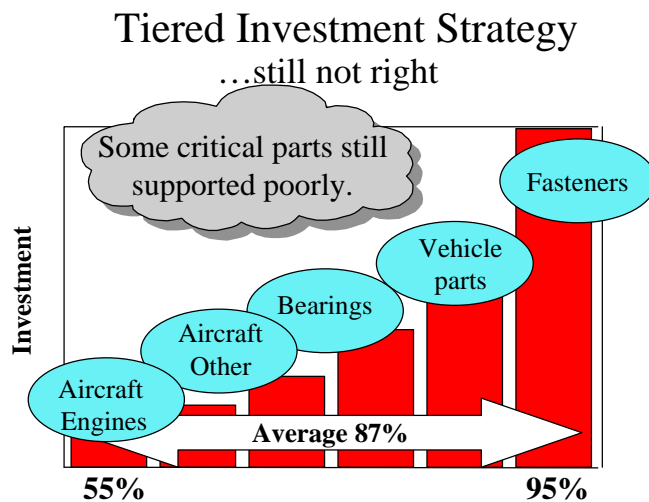


Figure 1

The solution is to move farther away from the optimal, business-oriented solution to improve support to engines and other critical aircraft parts. DLA has been authorized to invest \$500M over a four year period in increased inventory levels for aviation items. The increases are being targeted at those aviation-critical items with a history of poor support and that can benefit from increased investment.

PREPARED BY: Michael Pouy, DLSC-LS / 767-1616 / Aug 25, 1999

FACT SHEET

Subject: Aviation Investment Plan

REFERENCES:

- DLSC-LS Fact Sheet, "DLA Tiered Inventory Investment Policy", June 6, 1999
- DLSC-LS Fact Sheet, "Tiered Investment Strategy and Aviation Support", Aug 25, 1999

BACKGROUND:

- The fact sheets referenced above describe the transition of DLA's inventory investment strategy from a business-oriented optimization scheme with little regard for weapon system readiness, to a tiered approach that distinguishes items by importance, to recognizing the need for still more emphasis on items supporting aviation weapon systems.

DISCUSSION:

- DLA has been authorized to invest \$500 million over a four year period to enhance the support of items with application to aviation weapon systems. These are items with historically poor support and which can benefit from increased inventory investment.
- Approximately 12,000 items have been identified as candidates for increased safety level investment. Reorder points will be adjusted accordingly, staggered over a four-year period. Sequence of item investments is as follows:

Year 1 Tier 1 engine items
 Tier 1 non-engine long lead time items
 Low support non-engine items: parachutes, helo blades, landing gear, radar.

Year 2 Tier 2&3 engine items
 Remaining non-engine Tier 1

Year 3 Tier 2 non-engine items
 Tier 3 non-engine very low support items

Year 4 Remaining Tier 3 items
 Carryover from previous years
 NSO items, additional items identified during re-validation.

- First reorder points will trigger in January, 2000. Delay in starting up is result of OSD (PA&E) objections to item prioritization scheme that put initial emphasis on engine parts. Analysis required to modify the execution plan delayed implementation.

PREPARED BY: Michael Pouy, DLSC-LS / 767-1616 / Nov 22, 1999